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ABSTRACT

This report analyzes key student financial aid need issues in preparation for the reauthorization of the Higher Education Act. The issues discussed in the report were chosen by the College Scholarship Service's Council Committee on Standards of Ability to Pay, for discussion at the College Board's Regional Assemblies. The issues include: (1) definition of independent student status, (2) treatment of independent students, (3) use of base-year versus estimated-year income, (4) number-in-college adjustment, (5) development of a single need analysis system, (6) treatment of divorced/separated parents, (7) treatment of assets, and (8) simplified need analysis. For each issue, the report outlines the problem and questions for consideration; for many issues, it makes a proposal for change. A survey form is enclosed for interested readers to communicate their opinions on these issues. (JDD)

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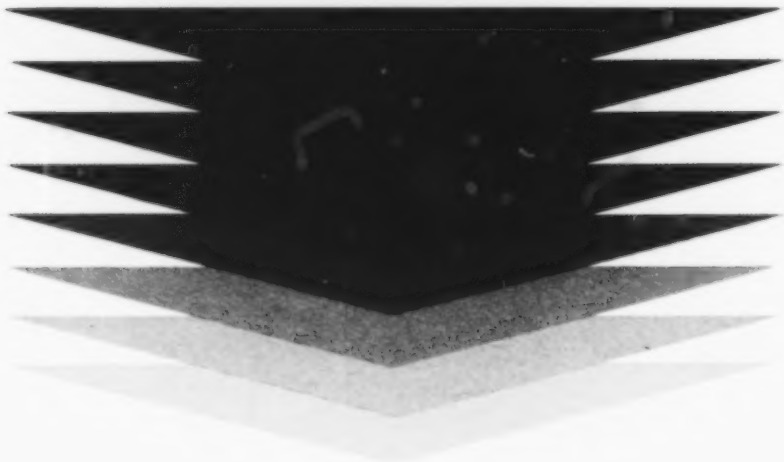

Preparing for the Next Reauthorization: Need Analysis Issues

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A Discussion Paper from the College Scholarship Service (CSS) Council
Committee on Standards of Ability to Pay
Prepared for the 1990 Regional Meetings of the College Board

February 1990 **Number 3**

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College Scholarship Service

The College Board

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INTRODUCTION

For the 1990 meetings of the College Board's Regional Assemblies, the College Scholarship Service (CSS) Council Committee on Standards of Ability to Pay (CSAP) has decided to focus its attention on key need analysis issues which merit careful review and candid exploration by the higher education community in preparation for the next reauthorization of the Higher Education Act.

The statutory authority for the student aid portion of the Higher Education Act expires in 1991, and work has begun on several fronts in preparation for the formal reauthorization of the Act. For example, the Department of Education completed a series of reauthorization hearings last fall, has established an internal staff committee to develop the administration's proposals, and plans to submit these proposals in January, 1991, as part of the President's fiscal year 1992 budget. In addition, the Advisory Committee on Student Financial Assistance, in preparation for reauthorization, recently held a national symposium focusing on simplification of the need analysis methodology and delivery system. The postsecondary education community has also begun preparations, initially working through a series of task forces established by the American Council on Education (ACE) to produce a number of position papers. In addition, the National Association of Student Financial Aid Administrators (NASFAA) is in the process of conducting its own reauthorization hearings at regional and state financial aid association meetings during the 1989-90 academic year.

These circumstances make it an appropriate time for the College Scholarship Service to formulate its own recommendations for changes to the Congressional Methodology, and to facilitate that process the committee has chosen to address the following issues:

1. **Definition of independent student status**
2. **Treatment of independent students**
3. **Use of base-year vs. estimated-year income**
4. **Number-in-college adjustment**
5. **Development of a single need analysis system**
6. **Treatment of divorced/separated parents**
7. **Treatment of assets**
8. **Simplified need analysis**

The committee is offering specific proposals for change on several of these topics, and simply identifying issues on the others.

During the need analysis session scheduled at each regional meeting, CSAP members will lead a discussion of the issues presented in this paper, seeking feedback on the positions presented here and guidance for the committee in its work this year. **The committee encourages readers who cannot attend a College Board regional meeting to communicate their opinions on these issues by returning the enclosed survey by February 15. (Surveys can also be returned *at* the regional meetings.)**

1. DEFINITION OF INDEPENDENT STUDENT STATUS

The Problem

In reauthorizing the Higher Education Act in 1986, the Congress altered the previous definition of independence, incorporating both "automatic" criteria (e.g., age, veteran status) and "conditional" criteria (e.g., tax exemption, self-sufficiency) that required documentation by the aid administrator. The intricacy of the questions related to the conditional criteria has increased each year, thereby increasing the complexity of application forms and the risk of erroneous applicant responses.

It is almost impossible to describe the qualifications of independent status in simple terms to students or parents. Furthermore, it appears that parents who *do* understand the current definition may be able to establish independence for their child by opting to *not* claim their child as a tax exemption during the two years prior to postsecondary enrollment. Since many high school students are able to earn the requisite $4,000 per year, and since the definition allows an applicant to use gifts from relatives (other than parents) to meet the self-sufficiency test, some financial aid administrators have reported an increasing frequency of high school seniors applying for financial aid as independent students.

In considering how to simplify the independent student definition, it is important to examine the various dependency criteria to learn which have the most significant impact on determination of independence for the CSS population. Table A, based on the fall 1989 CSS national summary data, shows that 84.3 percent of CSS independent filers established their independence on the basis of one or more of the *automatic* criteria.

Table A. Impact of Independent Student Criteria

	% Filers Establishing Independence
Over age 24	76.6%
Veteran	1.3%
Orphan/ward of the court	1.4%
Legal dependents	5.0%
Undergraduate conditional criteria	9.5%
Graduate/married conditional criteria	5.7%
Professional judgment	.5%

Proposal for Change

CSAP proposes to **simplify the independent student definition** with four specific amendments:

1. **Preserve the current automatic criteria;**

2. **Permit married and graduate/professional students to establish their independence automatically,** without meeting any additional criteria that are conditional in nature;

3. **Eliminate all conditional criteria;** and,

4. **Allow aid administrators to exercise their professional judgment** to handle genuinely independent students who do not meet any of the automatic criteria.

CSAP believes its proposal would have several benefits. First, the number of application questions needed to determine dependency status would be reduced from 14 to 5, and the most confusing questions -- those dealing with receipt of federal student aid and level of resources -- would be eliminated.

Second, the current loophole which allows young high school graduates to establish their independence would be closed. Finally, the new definition would be easily understood by both students and parents, and would reinforce one of the key principles of student aid administration: that parents have the primary responsibility to pay for their children's education to the extent that they are able.

Questions for Consideration

1. Should graduate/professional students be automatically independent?

2. Should married students be automatically independent?

3. Should veterans be automatically independent?

4. Should the conditional criteria be eliminated?

5. Will students be treated equitably if the definition places more reliance on aid administrators' professional judgment to handle exceptions?

2. TREATMENT OF INDEPENDENT STUDENTS

The Problem

The Congressional Methodology (CM), the need analysis system established by the Higher Education Amendments of 1986, treats independent students *with* dependents very differently from independent students *without* dependents. The Uniform methodology (UM), used through the 1987-88 academic year, applied the *same* treatment to all independent students.

Specifically, under the CM, independent students *with* dependents are treated in almost the same way as *parents of dependent students*; the same system of allowances and taxation rates is used for both models. Furthermore, CM defines "dependents" as all persons in the independent student's family -- the student's spouse, children, and any other dependents for whom the student provides more than one-half of the support. As a result, a married student who has no children or other dependents receives virtually the same treatment under CM as the parent of a dependent student, even though that married independent student is not a parent. In contrast, the Pell formula, as defined by the 1986 Higher Education Amendments, does not extend "parental" treatment to an independent student unless that student has children or other qualifying dependents.

The net result of this treatment is a concern that scarce financial aid resources are being redistributed to married independent students without children -- applicants who were eligible for little if any need-based aid under the Uniform Methodology. If this is the case, it can be argued that the current approach impairs the need analysis principle of horizontal equity, since the *single* independent student without children is assessed so much more heavily under the CM than the *married* independent student without children.

Table B illustrates the differences in treatment under the current CM rules.

Table B. CM Treatment of Independent Students

	Single	Married
Allowances against income	U.S. tax State tax FICA tax -- -- -- Allowance for maintenance	U.S. tax State tax FICA tax Medical/dental Elementary/secondary tuition Employment allowance Standard Maintenance Allowance (SMA)
Income assessment rate	70/90% of taxed 100% of untaxed	22 - 47% of taxed and untaxed
Asset conversion rates	35%	0 - 12%
Minimum contribution	$1,200	22% x $700/900

The potential inequities associated with the treatment of married independent students who have no children are compounded when both the student aid applicant *and* the spouse are enrolled in postsecondary education and apply for aid. For such families, assuming an enrollment period of nine months, the Standard Maintenance Allowance (SMA) recognizes 15 months of living expenses (12 months for the spouse and three months for the student). This SMA is subtracted from the couple's total income in computing the *student's* contribution from income and is subtracted again from the couple's total income in computing the *spouse's* contribution from income. (In other words, 30 months of individual maintenance are subtracted from the couple's 12-month income when both student and spouse are aid applicants.) Furthermore, both the student and spouse are granted a nine-month living allowance when the aid administrator determines each student's own expense budget. This means that a total of 48 months of expenses are recognized in determining the student's and spouse's financial aid eligibility for the nine-month enrollment period.

In general, contributions from married independent students without dependents, as well as from all independent students with dependents, are much lower under the CM than they were under the UM, despite the use of base-year income as the focus of assessment. For both dependent students and independent students *without* dependents, the switch to the use of base-year income for assessment purposes has resulted in significantly higher contributions. As illustrated in Table C, this has not been the case for independent students with dependents. This outcome has given rise to concern about the possible redistribution of financial aid resources.

Table C. Average CM and UM Contributions for Independent CSS Filers

	% of 89-90 Independent CSS Filers	89-90 Average CM Contribution	87-88 Average UM Contribution
Single with no child	53.6%	$4,221	$2,725
Single with child	18.7%	417	4,290
Married with no child	9.8%	2,123	8,670
Married with child	17.9%	1,717	9,072

Proposal for Change

CSAP suggests that the Congressional Methodology should be modified **to treat all independent students without children in a similar manner.** This change would bring the CM treatment of independent students in line with the concept in the Pell formula and would resolve the equity problems inherent in the current CM treatment of married independent students without children.

Specific proposed changes to the CM formula for married independent students without children include:

1. **Applying the income assessment rates currently used for independent students without dependents** (70 or 90 percent for

taxable income and 100 percent for untaxed income);

2. **Applying the state and local tax rates currently used for independent students without dependents;**

3. **Reducing income by a monthly maintenance allowance for each month the student *and spouse* are not enrolled in postsecondary education.** (This allowance would be derived annually from the two-person SMA instead of fixed at $600 per month, as is currently the case for single independent students without dependents, and therefore would be updated for inflation);

4. **Requiring a minimum contribution from available income of $1,200,** after dividing the available income by the number in college;

5. **Providing an employment allowance *if the spouse is employed*;**

6. **Using the 35 percent asset conversion rate currently used in the CM treatment of independent students with no dependents;** and,

7. **Dividing the income supplement by the number in college.**

Questions for Consideration

1. Should *all* independent students without children be treated in a similar manner, regardless of marital status?

2. Should a married couple's jointly-held assets be assessed at 35 percent, or should a lower asset assessment rate be used, as is the case in the Pell formula?

3. Should an employment allowance be granted if both student and spouse are enrolled in postsecondary education or only if the spouse is employed?

3. USE OF BASE-YEAR VS. ESTIMATED-YEAR INCOME

The Problem

The Congressional Methodology and the Pell Grant Family Contribution Schedule use base-year income information to determine the student contribution for both dependent and independent students. Base-year earnings are verifiable, and thus are probably more reliable

than estimated income as it was used previously in the Uniform Methodology. However, for many students, *base-year* earnings will not be an accurate predictor of *academic-year* earnings.

For example, *dependent* students in transition from high school to college often do not keep the part-time jobs that they held in high school. Similarly, base-year earnings are frequently poor indicators for entering and reentering *independent* students, especially graduate students, who are leaving full-time jobs to enroll in college.

Aid administrators currently handle this problem by exercising professional judgment in determining eligibility for campus-based aid and Stafford loans. However, federal law prohibits such adjustments for *groups* of students (e.g., all entering graduate students), and requires instead that decisions be made and documented on a case-by-case basis.

As a result, initial awards may be made using the contribution computed from base-year earnings; if the resulting earnings expectation represents a significant burden, the responsibility for seeking an adjustment falls on the student. It is not known how many students fail to do so because they do not realize they can appeal an aid administrator's initial decision. Furthermore, because of federal budgetary constraints, aid administrators are not currently permitted to exercise their professional judgment and make adjustments to the Pell Grant Index (PGI). Estimated calendar-year earnings can only be used if the student qualified under Department of Education-defined "Special Conditions."

How *do* base-year incomes compare to estimated-year incomes among CSS filers? Fall, 1989 national summary data reveal that on average, CSS filers (both dependent and independent) report estimated summer and academic-year earnings that are significantly *lower* than base-year earnings. The difference is most startling for dependent freshmen, for whom estimated-year earnings are *45 percent lower* on average than base-year earnings.

Table D. Average Base-Year and Estimated-Year Income

	Dependent		Independent	
	Freshmen	All Others	Under-graduates	Graduates
Average Base-Year Income	$2,154	$3,004	$11,769	$14,762
Average Estimated Summer + Academic-Year Income	$1,189	$1,823	$ 8,765	$ 9,372
% Difference	-45%	-39%	-26%	-37%

Proposal for Change

Since the implementation of the Congressional Methodology, many families of dependent students have raised serious complaints regarding the use of base-year earnings. In response

to their concerns, legislation has been considered which would, if enacted, reduce the income assessment rate for dependent students from 70 percent to "not less than 50 percent." CSAP questions the effectiveness of this proposed solution, since it does not deal with the policy issue of whether base-year income is an accurate predictor of academic-year earnings and ability to pay. Furthermore, this approach would create inequities between the treatment of dependent and single *independent* students, for whom the base-income assessment rate would remain at 70 or 90 percent.

It has also been suggested that the student's base-year earnings are being double-counted in the methodology, since they may also be reflected in the student's reported savings. In response, proposed legislation would exempt from assessment the amount of savings equal to the student's base-year earnings. CSAP takes issue with this proposed change, however. If base-year earnings were intended to function as a *predictor* of academic-year earnings, the student should be able to earn an equivalent amount during the next calendar year, and the resulting income flow would be available to assist with college expenses.

CSAP has spent considerable time discussing the pros and cons of using base-year earnings. For many schools, especially community colleges and vocational schools whose students do not typically relocate to enroll, use of base-year earnings seems entirely appropriate. Furthermore, schools that have studied the accuracy of reported estimated-year earnings by collecting student tax returns and comparing the results to the previous year's estimates, have generally confirmed the belief that student estimates are often inaccurate.

As a result, CSAP's proposed solution is to **permit aid administrators to exercise professional judgment for groups of students**, establishing institutional policy regarding use of base-year or estimated-year earnings. Institutions which draw students from a wide geographic area might choose to use estimated-year income for first- and second-year undergraduates, for example. The school would be required to document the institutional policy, but individual student files would not require documentation.

CSAP recognizes, however, that its proposal may face certain political challenges. Recent legislation passed by the Congress expressly prohibited changes to the methodology for groups of students, citing the base-year income issue as an example of aid administrator abuse of professional judgment. As a result, CSAP is very interested in discussing other possible approaches to the problem during the regional meetings.

Questions for Consideration

1. Should the assessment rate be reduced for dependent applicants, as was proposed in recent legislation? Should the same change be made for independent students with no dependents?

2. Is there support for moving to estimated-year income for *all* students or for classes of students? How can the verifiability problem be addressed?

3. Is there support for the CSAP position, allowing aid administrators to exercise professional judgment for groups of students, rather than on a case-by-case basis?

4. NUMBER-IN-COLLEGE ADJUSTMENT

The Problem

The discussion regarding the treatment of families when multiple members are enrolled in college has generally focused on the current CM provision that includes *parents* in the number-in-college adjustment. (Parents were excluded under the old UM rules.) Several concerns about the current treatment have been cited.

First, many parents enroll in colleges which charge very low tuition and fees; therefore, the cost to the family is minimal, and the reduction in the parent contribution understates the parents' ability to pay for their children's postsecondary education. Second, many parents enroll in personal development courses rather than degree or certificate programs, and it is not uncommon for their employers to pay the tuition costs for those who *do* enroll in degree or certificate programs.

Further, the related Standard Maintenance Allowance adjustment for additional enrollees assumes that a child will move out of the home to attend school; the enrolled parent will not do so. Finally, the CM treatment disproportionately benefits families at the high end of the income scale, while lower-income families receive virtually no benefit from the treatment. There are other, more complex dimensions to the question of multiple family member enrollment that CSAP has begun to explore. Although the committee has not yet developed specific recommendations for change, there are concerns about the equity of the current approach beyond that of whether parents should or should not be included in the computation.

The current CM treatment assumes that a family will pay for college using current resources. In this context, dividing the total parent contribution by the number of children enrolled in college makes sense. However, CSAP has begun to think of the parent contribution as a measure of the parents' capacity to pay for college *over time*, and CSS has revised its publications to incorporate this new concept.

If the public goal is to encourage families to plan ahead and begin to save for college in advance of their children's enrollment, then the current CM treatment becomes questionable. A family with more than one child headed for a postsecondary education must plan to pay more and to save more over time. In the extreme, is it equitable for the need analysis system to require a full contribution for each child from a family that spaces its three children at four-year intervals, while expecting only one-third as much from a family that has triplets? Perhaps the first family deserves some reduction in the total expected contribution for the three children; perhaps the second family should not be given as much of a financial benefit as it is provided currently in the CM.

Prior to 1978-79, the CSS need analysis system expected a family with more than one member enrolled to provide *more* in total contribution than a family member with only one member enrolled. If two members were enrolled, the contribution for each student was *60 percent* of the total (not 50 percent, as in the current system). If three members were enrolled, the contribution for each student was *45 percent* of the total; if four or more were enrolled, the contribution for each student was *35 percent* of the total.

The problem is one of equity, as was noted in the 1977-78 edition of CSS Need Analysis: Theory and Computation Procedures:

> *The problem faced in determining parental contributions for students concurrently enrolled in postsecondary education is one of balancing fairness of obligation for multiple-student families with parity of obligation among all families. Indeed, the Panel on Student Financial Need Analysis, convened in 1970 by the College Scholarship Service ... noted in its final report that is necessary "to provide some reduction in the contribution when a second or third child is simultaneously in college, without producing .... excessive favoritism ... shown to parents of children whose college years overlap." The concept of equity here must accommodate a benefit element – families whose members absorb more of the output of postsecondary education may, with fairness, be expected to assume a greater obligation from their given level of resources.*

Proposal for Change

On the specific question of whether or not parents should be counted, CSAP proposes to **eliminate parents from the number-in-college adjustment, but to allow their unreimbursed direct educational expenses as an allowance against income,** provided that the parents are enrolled in degree or certificate programs. CSAP believes that this approach would minimize the vertical-equity problems created by the current CM treatment, and would provide benefits for all affected parents, no matter how low their income. This treatment would be similar to the CM approach to unreimbursed elementary- and secondary-school tuition, and would require the addition of a data element to the federal core section of the application.

On the larger issue of the treatment itself, CSAP has not adopted a recommendation on this issue, and is not yet prepared to propose a return to the 1977-78 system. However, the committee believes that this is a policy issue worthy of discussion and possible action during the next reauthorization, and solicits CSS member and user comments during the regional meetings.

Questions for Consideration

1. Should the CM be changed to eliminate consideration of the parents' enrollment in college?

2. Should the parents' unreimbursed direct educational expenses, incurred through enrollment in a degree, credential, or certificate program, be allowed as an offset to income?

3. Leaving aside the *practical* questions of *how* and *when* families finance the expense, should a family with *two* college-going children be expected in theory to pay more or no more *in total* than a similarly-situated family with only *one* college-going child? If more, how much more? If no more, why not? If there are *three* college-going children, how does the theory change?

4. If the *theory* suggests that families with multiple college-going children ought to pay more *in total* than families with only one college-going child, should the *methodology* recognize at all the financing difficulties posed by simultaneously-enrolled children, or should it be entirely neutral as to whether their enrollments overlap? Is it equitable to favor families whose children are more closely spaced than those whose are not?

5. DEVELOPMENT OF A SINGLE NEED ANALYSIS SYSTEM

The Problem

There is continuing interest in exploring the feasibility of integrating the Pell and CM need analysis models into a single need analysis system for all Title IV programs. An argument can be made that integration of the models would help to simplify the delivery system, both for students and their families and for aid administrators. For example, anecdotal evidence suggests that some students who are ineligible for Pell Grants believe that they are also ineligible for other types of aid. Since this is often not the case, moving to a single need analysis system would eliminate this potential source of confusion.

In addition, families often have difficulty relating the information they provided on the application to the resulting multiple family contributions and their effect on federal eligibility determination. From the aid administrator's perspective, explaining to families the difference between the Pell Grant Index and the CM Family Contribution is often a time-consuming endeavor. Furthermore, mastering two separate need analysis systems is a difficult challenge for neophyte aid administrators. For all these reasons, integration of the need analysis systems seems appealing.

The idea of a single need analysis system is not new. In 1972, when the Pell Grant Program (then called the Basic Educational Opportunity grant or BEOG Program) was established, the then-Office of Education considered using either the CSS or American College Testing (ACT) need analysis system to determine student eligibility. Instead, however, the government established a *third* system of need analysis. A few years later, the National Task Force on Student Aid Problems, chaired by Francis Keppel, recommended integration of the CSS and ACT systems into a single consensus system, which became the Uniform Methodology. At that time, however, the Office of Education chose not to adopt the UM because it was believed that it would result in unaffordable BEOG program costs. When the Higher Education Act (HEA) was amended in 1980, the Congress stipulated that a single need analysis system should

be used to determine federal aid eligibility; the provision was never implemented, however, because the Congress believed that the Secretary of Education would use the family contribution calculation as a rationing device to control federal costs. In 1986, during the most recent reauthorization of the HEA, the Congress maintained the dual systems of need analysis and went one step further by writing the need analysis formulas into the law. A single system was perceived to be both too costly and too complex.

How *do* the CM formula elements used to determine parents' contribution compare to the elements used in the Pell formula? In evaluating the feasibility of integrating the Pell and CM need analysis systems, examining the structural differences that generate different family contribution results [see Table E] may help identify aspects of one methodology or the other that could be changed to bring uniformity to the results.

Table E. CM and Pell Formula Element Comparison

Dependent Model: Parents	CM	Pell
Total Income (TI)	AGI + untaxed income	AGI + untaxed income + 50% of student's VA benefits
U.S. Income Tax	Actual	Same
FICA	Allowed	Not allowed
State/other tax	% of TI	Same
Medical/dental	Greater than 5% of TI	Greater than 20% of TI
Elementary/secondary tuition	$3,980/child	Same
Employment allowance	35%/$2,200 max	50%/$1,500 max
Maintenance	BLS low (excludes student for 9 months)	Sub-poverty
Income assessment rate	22% - 47% (income + income supplement)	11% - 25% (income only)
Savings, other real estate, and investments	Net worth	Net worth - $25K
Home equity	Net worth	Net worth - $30K
Business equity	Adjusted net worth	Net worth - $80K
Farm equity	Adjusted net worth	Net worth - $100K
Asset protection	Age-based; $63,400 max	$110K - $130K max
Asset assessment rate	2.6% - 5.6% depending on income	5%

Dependent Model: Student

Total Income (TI)	AGI + untaxed income	Same
U.S. Income Tax	Actual	Same
FICA	Allowed	Not allowed
State/other tax	% of taxable income	Not allowed
Maintenance	Not allowed	$3,800/$5,500
Income assessment rate	70%	75%
Asset protection	Not allowed	Same
Asset assessment rate	35%	33%
Minimum contribution	$700/900	None
Unassessed VA benefits	100%	Not assessed

Independent Model: Independent Student without Dependents

Total Income (TI)	AGI + untaxed income + VA benefits	AGI + untaxed income + 50% VA benefits
U.S. Income Tax	Actual	Same
FICA	Allowed	Not allowed
State/other tax	Same % as dependent student	Same % as parent of dependent student
Maintenance	$600/month of non-enrollment	$5,700/$7,200
Income assessment rate	70% to $9,500; 90% thereafter	75%
Minimum contribution	$1,200	None
Asset protection	Age-based; $63,400 max	$0 if single; same as parents if married*
Asset assessment rate	35%	$33% if single; 5% if married*

*In the Pell analysis, the spouse is not considered a dependent; therefore, all married students without other dependents would be analyzed using this formula. In the CM, no married student would be analyzed using this formula.

Is the Pell need analysis system really a "rationing device"?

According to Department of Education data from the 1988-89 award year comparing the average Pell and CM results, the Pell need analysis system is, on average, *much more generous* than the Congressional Methodology.* Only in the case of married independent students without children is the CM result more generous on average than the Pell result. This is because in the CM, the married student without children is treated in virtually the same way as the parent of a dependent student. The federal data reveal that the Pell need analysis system computed a $0 expected family contribution (EFC) for about 33 percent of all aid applicants; the CM need analysis system produced a $0 EFC for fewer than 5 percent of all aid applicants. Furthermore, the average Pell EFC was $2,353, compared with the average CM EFC of $3,258. Table F summarizes certain of the federal findings.

Table F. Summary Statistics on Pell and CM EFCs

		Independent			
	Dependent Applicants	Children, No Spouse	Spouse, No Children	No Spouse, No Children	Total
All applicants					
Average Pell SAI	3,161	560	5,163	1,861	1,561
Average CM EFC	4,964	663	1,479	3,730	2,121
Pell SAI as % of CM EFC	64%	84%	349%	50%	74%
Applicants with Pell SAI less than 2,000					
Average Pell SAI	623	263	374	239	259
Average CM EFC	1,733	289	154	2,008	996
Pell SAI as % of CM EFC	36%	91%	243%	12%	26%
Applicants with CM EFC less than 2,000					
Average Pell SAI	363	253	2,447	9	404
Average CM EFC	1,101	269	484	1,326	604
Pell SAI as % of CM EFC	33%	94%	506%	1%	67%

A key reason for the more generous Pell treatment is the CM expectation of a minimum student contribution for almost all students. Even very low-income students, who would otherwise have an expected CM EFC of $0, have an expected contribution of between $250 and $1,200, depending on their dependency status and number of dependents. In fact, at lower income levels, the Pell need analysis produces *higher* parent contributions than the CM; the overall lower average Pell EFC is almost entirely due to higher CM student contributions. For low-income families, the student share of the Pell EFC ranges between 16 and 25 percent;

**Data provided by the United States Department of Education and comprise 5.4 million applicants, representing all applicants who had both a Pell SAI and CM FC, who had not had these EFCs revised based on aid administrator discretion, and who had completed the federal supplemental data elements.*

PREPARING FOR THE NEXT REAUTHORIZATION:
NEED ANALYSIS ISSUES

Opinion Survey

Definition of Independent Status

1. Should *graduate/professional* students be automatically independent?
   [ ] No [ ] Yes

2. Should *married* students be automatically independent?
   [ ] No [ ] Yes

3. Should *veterans* be automatically independent?
   [ ] No [ ] Yes

4. Should the *conditional* criteria be eliminated?
   [ ] No [ ] Yes

5. Will students be treated equitably if the definition places more reliance on aid administrators' professional judgment to handle exceptions?
   [ ] No [ ] Yes

Treatment of Independent Students

6. Should *all* independent students without children be treated in a similar manner, regardless of marital status?
   [ ] No [ ] Yes

7. Should a married couple's jointly-held assets be assessed at 35 percent, or should a lower asset assessment rate be used, as is the case in the Pell formula?
   [ ] 35% [ ] Lower Rate

8. Should an employment allowance be granted if both student and spouse are enrolled in postsecondary education or only if the spouse is employed?
   [ ] Yes, under all conditions
   [ ] Only if the spouse is employed

Use of Base-Year vs. Estimated-Year Income

9. Should the assessment rate be reduced for dependent applicants, as was proposed in recent legislation?
   [ ] No [ ] Yes

10. Should the same change be made for independent students with no dependents?
    [ ] No [ ] Yes

11. Do you support a move to estimated-year income?
    [ ] No
    [ ] Yes, for all students
    [ ] Yes, for classes of students

12. Do you support the CSAP position, allowing aid administrators to exercise professional judgment for groups of students, rather than on a case-by-case basis?
    [ ] No [ ] Yes

Number-in-College Adjustment

13. Should the CM to changed to eliminate consideration of the parent's enrollment in college?
[ ] No [ ] Yes

14. Should the parent's unreimbursed direct educational expenses be allowed as an offset to income?
[ ] No [ ] Yes

15. Should more be expected *in total* from families with multiple college-going children than from similarly-situated families with only one college-going child?
[ ] No [ ] Yes

Development of a Single Need Analysis System

16. Do you believe that the current structure of dual need analysis systems is confusing to students and their parents?

[ ] No [ ] Yes

17. How could Pell Grant eligibility for low-income students be protected if the CM were adopted as the single need analysis system?

_____
_____
_____

18. Does the entitlement nature of the Pell Grant program increase the possibility that need analysis changes would be enacted as cost reduction measures if there existed only a single need analysis system?
[ ] No [ ] Yes

19. Are there any aspects of the Pell system that should be applied to the CM if the two need analysis systems were integrated?
[ ] No [ ] Yes (Explain)

_____
_____
_____

Treatment of Divorced/Separated Parents

20. Should a stepparent's financial information be required if the marriage to the natural parent was recent?
[ ] No [ ] Yes

21. Should the non-custodial parent's information be required if the separation or divorce was recent?
[ ] No [ ] Yes

22. Should the divorced/separated parent information [Section O on the 1990-91 FAF] be maintained?
[ ] No [ ] Yes

23. Do you recommend changes to Section O?
[ ] No [ ] Yes (Explain)

_____
_____
_____

24. Should CSS collect *additional* information on the FAF regarding financial support from the non-custodial parent?

[ ] No
[ ] Yes, for the base year only
[ ] Yes, for the projected year only
[ ] Yes, for both years

25. Can the CSS Divorced/Separated Parent's Statement be improved?

[ ] No [ ] Yes (Explain)

_____
_____
_____

Treatment of Assets

26. Should the current CM treatment of home equity be modified? If so, how and for what types of applicants?

[ ] No [ ] Yes (Explain)

_____
_____
_____

27. Should home equity be eliminated from need analysis consideration? If so, for what types of applicants?

[ ] No [ ] Yes (Explain)

_____
_____
_____

28. Do you think that the CSAP approach has merit and warrants further analysis?

[ ] No [ ] Yes

29. Which is the most equitable approach for the treatment of assets accumulated in educational savings or guaranteed tuition plans?

[ ] Allow asset to meet PC expectation
[ ] Exempt asset from need analysis
[ ] Treat accumulation as parent asset
[ ] Treat accumulation as student asset
[ ] Treat accumulation as student *resource*

30. Should the need analysis treatment of such savings be dependent on the characteristics of the individual program?

[ ] No [ ] Yes (Explain)

_____
_____
_____

31. Does the CSAP concept of a savings protection allowance have merit?

[ ] No [ ] Yes

32. Is it possible to derive a savings expectation from current income and asset data?

[ ] No [ ] Yes

Simplified Need Analysis

33. Should single independent students qualify for the SNT benefit?
[ ] No [ ] Yes

34. Should the qualifying test for dependent filers be modified to focus only on parental information?
[ ] No [ ] Yes

35. What reasons influence institutional and/or agency decisions not to use SNT results?

_____
_____
_____

36. Should certain types of filers be completely excluded from need analysis? If so, which groups? If not, why not?
[ ] No [ ]Yes

_____
_____
_____

Demographic Information

37. In which College Board region are you located?
[ ] New England [ ] Midwest
[ ] Middle States [ ] Southwest
[ ] South [ ] West

38. How is your institution classified?
[ ] Public
[ ] Independent
[ ] Proprietary

39. Which best describes your institution or agency?
[ ] 2-year college [ ] 4-year college
[ ] 4-year *plus* graduate and professional [ ] Graduate and professional *only*
[ ] High school [ ] School system
[ ] State agency [ ] Other _____

40. Which best describes your professional role?
[ ] Financial aid administrator
[ ] Admissions officer
[ ] Admissions *plus* aid officer
[ ] Other academic administrator
[ ] College faculty
[ ] Counselor
[ ] Principal
[ ] Superintendent
[ ] High school teacher
[ ] State agency administrator
[ ] Other _____

Thank You!

Please return this survey at your College Board regional meeting *or* mail to:

Kathleen Little
CSS
45 Columbus Avenue
New York, N.Y. 10023-6992

for the same families, the student share of the CM EFC ranges between 50 and 77 percent. Department of Education staff estimate that using the CM need analysis system to determine eligibility for Pell Grants would *reduce* the number of eligible applicants by more than 20 percent and *increase* the EFC of eligible applicants by more than 90 percent. However, if the CM were adopted for all federal programs, it might be possible to adjust the Pell award schedule and cost of attendance regulations to ensure that program funding does not diminish and that the neediest students are not disadvantaged by the change.

Questions for Consideration

1. Do financial aid administrators believe that the current structure of dual need analysis systems is confusing to students and their families?

2. How could Pell Grant eligibility for low-income students be protected if the CM were adopted as the single need analysis system?

3. Does the entitlement nature of the Pell Grant program increase the possibility that need analysis changes would be enacted as cost reduction measures if there existed only a single need analysis system?

4. Are there any aspects of the Pell system that should be applied to the CM if the two need analysis systems were integrated?

6. TREATMENT OF DIVORCED/SEPARATED PARENTS

The Problem

Many dependent financial aid applicants come from families with divorced or separated parents. Among 1989-90 CSS dependent filers, about 21 percent of the students reported that their parents were divorced or separated. An additional number, not possible to quantify, were dependent on a natural parent *and* a stepparent; still more students (but fewer than 4 percent overall) reported that their parent's marital status was single.

These cases are often the most difficult to handle and require individual review and lengthy communications with the family. Alienation, anger, and bitterness are often prevalent. Students sometimes live with both parents alternately, or may be pushed away by both. In cases where the natural parent with whom the student lives has remarried, the stepparent often feels no obligation to the stepchild, although the need analysis system requires the stepparent to report income and asset information on the financial aid application.

Furthermore, the non-custodial parent frequently views the financial obligation to be only that which is court-ordered, which normally ends at age 18. Due to the complexity and uniqueness of each family situation, there is no ideal procedure for handling all cases. Unfortunately, relying on the aid administrator's professional judgment to handle unique situations may not always be the best solution either, especially in offices where large-volume processing may preclude extensive use of aid administrator discretion.

CSAP has discussed the complex set of issues inherent in divorced/separated cases. One idea that the committee has considered is to require information on the need analysis form from the non-custodial parent, instead of the stepparent, especially in situations where the divorce or separation was very recent (e.g., perhaps within four years of the student's enrollment in postsecondary education). However, the committee is not prepared to recommend changes to the need analysis system at this time, and hopes instead to generate some discussion within the aid community about the problems and possible solutions.

Questions for Consideration

1. Should a stepparent's financial information be required if the marriage to the natural parent was recent? If so, what time frame should be used to define "recent"?

2. Should the non-custodial parent's information be required if the separation or divorce was recent? If so, what time frame should be used to define "recent"?

3. Should the divorced/separated parent information [Section O on the 1990-91 Financial Aid Form (FAF)] be maintained? Are any changes needed?

4. Would it be helpful to collect additional information on the form regarding financial support from the non-custodial parent? For the base year? For the projected year? Both?

5. Can the CSS Divorced/Separated Parent's Statement be improved? If so, how?

7. TREATMENT OF ASSETS

Home Equity: The Problem

The inclusion of a family's home equity in need analysis formulas has long been a topic for debate. As American families concentrate more and more of their total investments in their homes, concern about treatment of home equity continues to grow. During the 1980s, housing markets in New England, New York, New Jersey, Washington, D.C., and California all experienced significant price "booms." Those who owned their own homes found themselves with large amounts of home equity. In many cases, people owned homes that were worth far more than they could afford if they had to buy in today's market. Furthermore, families who were affected by the housing market "boom" and who applied for financial aid were often shocked by the effect of home equity on their expected parent contributions, which they considered unreasonable.

It is important to keep in mind, however, that this is primarily a problem for home owners on the east and west coasts. House prices are still remarkably reasonable and consistent with income levels in most of the rest of the country. Table G provides sample sales prices of single-family homes for metropolitan areas in various parts of the country.

Table G. Median Sales Price of Single-Family Homes in Metropolitan Areas

Metropolitan Area	1986	1987	1988
Akron, OH	$ 56.2	$ 57.1	$ 59.9
Albany, NY	72.7	86.4	92.2
Birmingham, AL	68.3	71.6	75.7
Boston, MA	**159.2**	**177.2**	**181.2**
Chicago, IL	88.1	90.8	98.9
Dallas, TX	93.2	90.8	90.8
Denver, CO	86.4	88.9	81.8
Grand Rapids, MI	50.4	53.5	57.9
Hartford, CT	**129.0**	**157.4**	**167.6**
Honolulu, HI	**172.0**	**186.0**	**215.1**
Houston, TX	69.9	65.9	61.8
Knoxville, TN	60.3	65.4	67.0
Los Angeles, CA	**128.8**	**147.7**	**179.4**
Madison, WI	66.4	69.2	72.0
Miami, FL	81.1	81.1	82.9
New York, NY	**160.6**	**183.5**	**183.8**
Phoenix, AZ	78.4	80.9	80.0
Portland, OR	62.6	64.2	64.4
Providence, RI	**87.6**	**121.4**	**130.6**
San Diego, CA	**118.2**	**129.2**	**147.8**
San Francisco, CA	**161.2**	**171.3**	**212.6**
Tulsa, OK	65.5	65.7	65.0
Washington, D.C.	**101.6**	**114.2**	**132.5**

As the table reveals, there is substantial variation across the country both in terms of the rate at which home values have increased and in terms of the actual value of typical homes. The role of home equity has consistently been one of the most difficult aspects of need analysis for the aid administrator to explain and for the family to accept. With the most recent changes in home values, this issue is once again the focus of significant public scrutiny and political debate.

The Case for Retaining Home Equity

In current need analysis theory, the inclusion of assets, both liquid and non-liquid, is intended to provide an additional measure of a family's financial strength. To maintain horizontal equity, equal treatment for families with similar circumstances requires consideration of a family's assets, including home equity. The family that bought a $75,000 house that is now worth $220,000 still pays only about $400 per month for the home mortgage, and has an asset worth $150,000. A family *with the same income* that does not own a home may pay up to three to four times as much each month to rent a house and has no asset. If home equity were eliminated from need analysis, the expected parent contributions for these two families would be identical. Their ability to meet college costs, however, differ significantly.

Home equity is like other investments. It earns a rate of return, or a yield, that comes, at least in part, in the form of housing services or reduced rent. Since the system is not taxing available pools of income and assets, but rather measuring a family's ability to sustain an annual financial effort over some period of time, the financial advantage to the home owner of paying reduced rent is a significant one and should assist the family in putting aside income each year to pay for a share of college costs.

Furthermore, the home owner receives favorable treatment under the income tax code. A portion of the monthly mortgage payment is tax-deductible; the rent payment is not tax-deductible. In addition, many families with home equity are able to borrow against that equity, and the interest on home equity loans used for educational purposes is tax-deductible. The renter family that decides to take a personal loan to help finance college costs does not receive the same benefit in the tax system.

For all these reasons, it can be argued that the home-owning family may have a significantly enhanced ability to meet college costs. The issue becomes how to help the home-owning family understand the value of its asset and how to factor the asset properly into need analysis expectations.

An Alternative Approach to Current Treatment

It can also be argued, however, that treating home equity like any other asset may not be fair when home value is far out of line with family income. Under the current system, the aid administrator is permitted and encouraged by statute to identify such families and make adjustments to the computed family contribution to reduce the contribution calculated from

home equity. CSAP believes, however, that it may also be possible to change the treatment of home equity so that such families are handled routinely by the system.

Specifically, CSAP has explored the idea of capping home value, for need analysis purposes, at the value of the house the family would be able to buy today if it were to push its current income to the limit. Using this approach, the need analysis system would relate family income to home equity, using either the banking industry's standard that a family's house payment should not be more than 28 percent of income or the housing subsidy program's guideline that caps the housing payment at 30 percent of family income.

It is easiest to understand such an approach by looking at two case studies. In the first case, the family's income is $50,000; the current home value is $250,000; the current mortgage owed is $80,000. Using the current CM formula rules, the addition to the parent contribution from home equity would be $9,588 (.12 x .47 x $170,000). Under the proposed CSAP approach, the formula would compute the maximum monthly housing payment that such a family could afford using a 30 percent cap and then compute the maximum home value that the family could afford. The calculation would work as follows:

Step 1: $50,000 x .30 = $15,000

Step 2: $15,000 / 12 = $1,250 monthly housing payment cap

Step 3: Assuming a 30 year fixed rate mortgage at current rates, this monthly housing payment would enable the family to afford a $145,000 house.

Step 4: $145,000 - $80,000 mortgage = $65,000 home equity

Step 5: $65,000 x .12 x .47 = $3,666 addition to the parent contribution from home equity (compared to $9,588 in today's CM)

In the second case, the family's income is also $50,000. However, the family's home is valued at $150,000 and the family's unpaid mortgage is $60,000. The current CM would compute an addition to the parent contribution from home equity of $5,076 (.12 x .47 x $90,000). The proposed approach is outlined below:

Step 1: $50,000 x .30 = $15,000

Step 2: $15,000 / 12 = $1,250 monthly housing payment cap

Step 3: Maximum home value = $145,000

Step 4: $145,000 - $60,000 mortgage = $85,000 home equity

Step 5: $85,000 x .12 x .47 = $4,794 addition to the parent contribution from home equity (compared to $5,076 in today's CM)

The impact of the proposed change on the second family is not as great as on the first family

because the current home value of the second family is not so out of line with the family's income as it is in the case of the first family.

In either case, the family is paying less in monthly housing payments than income would permit and so is benefitting from return on the home equity investment. In financing college expenses over time, both families should be able to take advantage of these monthly savings and consider them a resource to help finance the expected parent contribution.

This approach also has the advantage of avoiding the inequitable impact associated with other solutions that would exclude home equity completely but limit the benefit at a given income level (e.g., $30,000). CSAP greatly prefers an approach that preserves the principle of equitable treatment of all assets without regard or reference to arbitrary ceilings.

Questions for Consideration

1. Should the current CM treatment of home equity be modified? If so, how and for what types of applicants?

2. Should home equity be eliminated from need analysis consideration? If so, for what types of applicants?

3. Does the CSAP approach have merit and warrant further analysis? What potential problems should be considered in evaluating this approach?

Education Savings: The Problem

There is increasing discussion in the aid community and among the public at large about the perceived inequities in the need analysis system's treatment of family savings. Some have argued that the system penalizes those families who have sacrificed and saved while rewarding families who could have saved but who chose not to. Others contend that any reference to assets discourages families from saving, even though the savings assessment rates range from only 2.6 percent to 5.6 percent.

During recent years, the issue of the treatment of savings in need analysis has been complicated by the introduction of a federal educational savings bond program and a variety of state educational savings bond and guaranteed tuition programs. Certain of these programs limit the use of the assets accumulated in them to educational expenses. Other programs are much more flexible regarding who can use the assets and for what purpose. An emerging question, therefore, is how such assets should be treated for purposes of need analysis.

The U.S. Department of Education has recently ruled that assets held in the Michigan Education Trust must be counted as *student* assets. If this policy is to extend all such programs, state need analysis policies may conflict with the federal government's policy on treatment of such assets.

For example, the states of Illinois and Rhode Island have determined that the first $25,000 held in their state savings bond plans should not be treated as either a financial resource or as a form of financial aid to the student, and should not reduce the amount of financial aid that the student is eligible to receive from the state. Furthermore, the state of Indiana has proposed that amounts available under the state's not-yet-implemented guaranteed tuition plan should be considered parents' contributions in determining need-based awards. In addition, the state of Florida has determined that the value of the family's prepaid tuition and dormitory contracts will be counted as part of a family's resources when determining eligibility for need-based financial aid.

CSAP believes that the complexities inherent in differing state and federal approaches to the treatment of assets held in federal and state savings plans make this a key area for resolution during the next reauthorization, and therefore solicits member and user opinion and recommendations regarding the most equitable treatment of this type of asset. In addition, CSAP has begun its own study of whether the need analysis system can be changed to reduce perceived savings disincentives and even to encourage greater parental effort.

An Alternative Approach to Current Treatment

Although need analysis basically accepts families in their current condition, performing calculations on current income and asset data, it makes no assumptions about how parents will actually finance their children's education. However, because the cost of a college education is a major expenditure, like other major purchases, it is most easily financed over a period of years. For any such expenditure, families finance payments out of previous years' incomes by saving and out of later years' incomes by borrowing.

As the aid community begins to think of college financing as a sustained effort over some number of years and encourages families to plan early for college expenses, it may be necessary to look beyond the current snapshot view of a family at the time the child is ready to enter college. The new approach to family financing of postsecondary education suggests that the need analysis system should be interested in the family's financial history and capacity over a longer period of time to allocate resources to help meet college expenses. Even if the only data available reference current income and assets, the goal should be to view the family as having an earnings history which has provided savings opportunities. The system should determine a family's capacity to save, ignoring the actual amount that they have chosen to save. If the goal is to minimize the subsidy for those who choose not to save, the system might assume a certain level of savings, varied by income level, and base the parent contribution on that assumption, whether or not the savings expectation has been met.

In order not to penalize those families that meet their savings expectation, the system might incorporate an asset protection allowance, which, in addition to providing for retirement, would protect the amount of assets a family had been expected to save for college (i.e., a savings protection allowance). This approach would benefit all families, but leaves open the question of purposefulness of the accumulation of assets. Another approach would be to exempt from assessment those savings accumulated through targeted programs, such as many of the state programs or the federal program involving U.S. Savings Bonds.

A harder issue than what savings to exempt is how to treat families that have not saved sufficiently or where the savings have not followed easily discernible patterns (e.g., through home equity). Fairness would suggest that such families would be expected to borrow what they have not saved, but such a concept must be tested against the impact on student educational plans and against the available borrowing options.

Questions for Consideration

1. Which is the most equitable approach for the treatment of assets accumulated in educational savings or guaranteed tuition plans:
   -- allow assets to meet the parental contribution expectation?
   -- exempt from need analysis altogether?
   -- treat accumulation as parent asset?
   -- treat accumulation as student asset?
   -- treat accumulation as student *resource*?

2. Should the need analysis treatment of such savings be dependent on the characteristics of the individual program?

3. Does the concept of a "savings protection allowance" have merit? Is it possible to derive a savings expectation from current income and asset data?

8. SIMPLIFIED NEED ANALYSIS

The Problem

The 1986 Higher Education Amendments created a Simplified Needs Test (SNT) for families with taxable income under $15,000 who did not file an IRS Form 1040. This needs test uses a reduced set of data elements to establish eligibility, excluding assets altogether and eliminating medical and dental expenses and elementary and secondary school tuition expenses from consideration. Although the goal of simplifying the system for the lowest income filers has received considerable endorsement, a number of problems have been identified with the current simplified approach.

First, the implementation of the Simplified Needs Test cannot really be characterized as simple. The reduced data set required for students who qualify still requires 32 questions, some with multiple parts, and many pages of complex instructions. More importantly, the eligibility criteria to qualify for the Simplified Needs Test remain complex, requiring two separate worksheets either on the form (in the case of the AFSA) or in the instruction booklet (in the case of the FAF). As a result, it is difficult for families to understand with certainty or ease that they qualify for the reduced data set, and Department of Education experience to date (with AFSA filers) shows that students often complete the federal supplemental questions, even though they are not required. (Other students who do not qualify for the Simplified

Needs Test reject in the system because they skip the required federal supplemental questions.)

A second feature of the Simplified Needs Test is that the resulting contributions can be higher than the contributions resulting from the full analysis. While this situation never arises in the case of independent students without dependents, for all other students, it can happen when the family's assets are very low or medical/dental or elementary/secondary tuition expenses are high. If the student completes all of the federal data, both the results of the Simplified Needs Test and the full analysis are computed, and the aid administrator can select the most appropriate result. However, if the student completes only the reduced data set, the only computation possible is the Simplified Needs Text calculation.

Preliminary data from the Department of Education, based on academic year 1989-90 applicants, suggest that for most federal aid applicants, the SNT and full CM results are exactly the same. (However, the data used in this analysis related only to those students who completed enough of the application form to trigger both the SNT and full CM contributions. Those AFSA filers who stopped before completing the federal supplemental data were not included.)

For example, among dependent filers, the SNT and full CM results were identical for 72 percent of the filers. Among independent filers without dependents, the results were the same in 66 percent of the cases. However, for independents students with dependents, the results were the same in only 31 percent of the cases. In 53 percent of the cases, the SNT results were higher than the full CM results (probably because many of these students have very few assets). Table H summarizes the results of the federal analysis.

Table H. Variation between Simplified and Regular CM EFCs

	SNT<REG at least 500	SNT<REG 100-499	SNT<REG 1-99	SNT=REG	SNT>REG 1-99	SNT>REG 100-499	SNT>REG at least 500
Dependent	2%	6%	13%	72%	2%	4%	1%
Independent *without* dependents	6%	11%	17%	66%	0%	0%	0%
Independent *with* dependents	1%	2%	13%	31%	25%	28%	0%

A third concern about the current Simplified Needs Test is that some institutions and state agencies do not accept the SNT results. As a result, students who qualify for the SNT and do not complete the federal supplemental data on the 1990-91 financial aid application may find themselves ineligible for certain types of aid or involved in a lengthy follow-up process with the institution or state agency.

How much use is actually being made of the Simplified Needs Test? The 1989 Survey of Undergraduate Financial Aid Policies, Practices, and Procedures (SUFAPPP) revealed that 30 percent of the more than 2,100 responding institutions never or rarely use the SNT results. Another 20 percent sometimes use these results. Only 50 percent said they generally accept the SNT results.

A survey of state grant agencies conducted recently by the Pennsylvania Higher Education Assistance Agency revealed interesting information about state agency use of SNT results for 1990-91 state grant awards. Sixty-nine percent of the states, representing 96 percent of all state awards made nationally, responded to the survey. Thirty-three percent of respondents, or 12 states representing 52 percent of the annual awards, said they did not accept the Simplified Needs Test. These states include California, the District of Columbia, New Hampshire, New York, New Jersey, Oklahoma, Pennsylvania, Tennessee, Texas, Vermont, and Washington. Two respondents said state laws prohibited use of the SNT; four said program regulations prohibited use of the SNT results; eight said the SNT did not reflect the applicant's ability to pay.

What is known about CSS filers who qualify for the SNT? According to fall, 1989 national summary data, 9.1 percent of 1989-90 dependent filers qualified for the Simplified Needs Test. The average parent contribution for these filers was only $76; the average student contribution was $1,405. This compares with an average parent contribution of $4,466 and an average student contribution of $2,101 for filers for whom the primary analysis was regular.

Table I provides additional information about parents of dependent SNT qualifiers, comparing them to the parents of filers for whom the primary analysis was regular.

Table I. Percentages and Averages of Variables For Parents of Dependent Students by Analysis Type

	Simple		Regular	
Variable	% Reporting	Average	% Reporting	Average
Total income	91.7	$ 8,742	96.1	$36,266
Taxable income	52.6	7,507	92.3	36,218
Untaxed income	60.9	6,678	25.8	5,447
Elementary/ secondary tuition	4.2	1,152	10.8	2,188
Medical/dental	25.5	1,044	58.4	1,594
Cash and savings	36.6	2,468	76.3	5,311
Home equity	29.0	30,700	71.0	49,295
Real estate/ investments	3.9	22,324	25.5	34,483
Business/farm	1.7	27,515	10.7	39,300

In contrast to the proportion of dependent students qualifying for the Simplified Needs Test, about 56 percent of all CSS independent students met the SNT criteria. The average contribution for these students was $1,862. Almost 79 percent reported taxable income (in contrast to only about 53 percent of the parents of dependent filers); 65 percent reported cash and savings (in contrast to the relatively modest percentage of dependent students whose parents reported savings).

In this regard, an important question is whether it is equitable to ignore assets of the independent student who has no family responsibilities and for whom education should be the highest priority. The problems perceived in this approach are exacerbated by the relatively high income ceiling, leading to a question as to whether it was fully intended for the SNT to be applied so broadly.

Proposal for Change

CSAP believes that two changes would significantly improve the current CM Simplified Needs Test:

1. **For dependent students, only the parents' taxable income and tax filing status should be used to determine if the family meets the SNT criteria.** This change simplifies the eligibility criteria for the Simplified Needs Test.

2. **Independent students without children should be excluded from eligibility for the Simplified Needs Test.** Given that such students have no dependents, there is no reason to exclude their assets from the analysis.

CSAP is committed to identifying alternative approaches which might exempt low-income filers -- those who have maximum eligibility under the current CM and Pell analyses -- from need analysis. Such applicants could be directed to complete a much shorter and simpler application form or could simply stop after providing basic demographic and other federal eligibility data on the MDE application. Perhaps these applicants could even be institutionally identified and reported to the Department of Education without filling out any centrally-processed application form.

An obvious target group for such an approach is the Aid to Families with Dependent Children (AFDC) recipient population. Other possible populations include those who qualify for other federal benefit programs, such as TRIO program participants, food stamp recipients, MEDICAID beneficiaries, and subsidized housing occupants. In addition, it may be possible to identify an income level (e.g., the current SNT $15,000 level, updated for inflation) below which a $0 contribution is almost assured; filers at or below this level could be assumed to have a $0 contribution without reporting any additional income or asset information. Research in this area is still in progress, but continues to be a very high priority for CSAP and CSS during the coming year.

Questions for Consideration

1. Should single independent students be eligible for the SNT benefit?

2. Should the qualifying test for dependent filers be modified to focus only on parental information?

3. What reasons influence institutional and/or agency decisions not to utilize SNT results? Do they vary by category of student?

4. Should certain types of filers be completely excluded from need analysis? If so, which groups? If not, why not?

College Scholarship Service Council
Committee on Standards of Ability to Pay
1989-90

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